

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, September 12, 2007

MEETING NO. 348

Members present:

Thomas Barnes¹
Thomas Fiore, representing
Robert L. Genuario
Michael Freeman
David (Duke) Himmelreich²
James Larkin, Chairman
William Murray
Denise L. Nappier, Treasurer
Sharon Palmer
David Roth
Carol Thomas
Peter Thor³

Absent:

George Mason

Others present:

Howard G. Rifkin, Deputy Treasurer
Linda Hershman, Assistant Deputy Treasurer/Chief of Staff
Lee Ann Palladino, Acting Chief Investment Officer
Diane Weaver Dunne, Director of Communication
Greg Franklin, Assistant Treasurer-Investments
David Holmgren, Principal Investment Officer
David Johnson, Principal Investment Officer
Catherine E. LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Jason Price, Principal Investment Officer
Linda Tudan, Executive Assistant to the Treasurer
Larry Wilson, Assistant Treasurer-Cash Management
Judy Balich, Executive Secretary
Else Taylor, Executive Secretary

Guests:

Bradley Atkins, Franklin Park, LLC
Vonda Brunsting, Service Employees International Union
Chris Devenney, Rogerscasey, Inc.
Raudline Etienne, Rogerscasey, Inc.
Harvey Kelly, Leumas Advisors
John Love, Rogerscasey, Inc.
Jacquelyn Lyons, State Street Corporation
Julie Naunchek, CSEA-Retiree Council #400
Thomas Poppey, State Street Corporation
Cynthia Steer, CRA RogersCasey
Marc Weiss, Pension Consulting Alliance

¹ Left at 12:00

² Arrived at 10:00 a.m.

³ Left at 1:00

Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:10 A.M.

Chairman Larkin announced that he had received a letter from Governor M. Jodi Rell appointing him chairman of the IAC.

Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the August 8, 2007 IAC Meeting. There being no comments, a motion was made by Michael Freeman, seconded by David Roth, that the Minutes of the August 8, 2007 IAC meeting be accepted as drafted. The motion was passed unanimously.

Opening Comments by the Treasurer

Treasurer Denise Nappier said that she was pleased to report that she received a letter from Governor Rell appointing James Larkin as Chair of the IAC, and officially welcomed him in his new leadership role. She told Chairman Larkin that he had been a supportive and resourceful member of the IAC in the past, and she was looking forward to his leadership of the IAC in his new role as Chair.

Treasurer Nappier said that she was also pleased to announce that Judy Balich would be her new executive secretary. She noted that Ms. Balich would relinquish her duties to the Pension Funds Management ("PFM") division and her role as a support to the IAC and thanked Ms. Balich for her efforts and the meticulous work she had provided to the IAC.

Treasurer Nappier reminded everyone about the farewell party for Dick Roberts to be held at Costa del Sol immediately following today's meeting.

Treasurer Nappier reported that subsequent to the presentation from Blackstone Real Estate Partners VI at the August 2007 IAC meeting and after considering the feedback from the IAC members, she decided to commit \$100 million to that fund. She said that the Connecticut Retirement Plans and Trust Funds ("CRPTF") was able to successfully complete the contract process within the very short turnaround time required to become an investor in this fund. She said that the Office of the Treasurer ("OTT") received some press on this investment and that it was included in the agenda packet of informational items.

Turning to the agenda for today's meeting, Treasurer Nappier said that there would be a presentation by Altaris Capital Partners, LLC ("ACP"), for a private equity opportunity in their new fund, AIG Altaris Health Partners II ("AIG II"). She noted that ACP is an existing manager with which the CRPTF currently has a \$40 million commitment to AIG Altaris Health Partners I ("AIG I"). She indicated that AIG II would pursue a similar investment strategy to that of AIG I, which has performed very well.

Treasurer Nappier said that as part of the expedited search for Mutual Fixed Income Fund ("MFIF") high yield money managers, the IAC would hear from three semi-finalists, all of which were buy-rated firms identified by the consultant, Rogerscasey, Inc., as potential candidates for this mandate. She said the candidate managers were reviewed based on their experience within the high yield space, experience with public funds, analysis of their strategic approach to these markets and their commitment to corporate citizenship and diversity. Treasurer Nappier noted that the semi-finalists presenting today each have a unique style within the high yield market.

Treasurer Nappier said that next on the agenda would be the consideration of her proposed revisions to the Investment Policy Statement ("IPS"). She began by thanking the members of the IAC for their input to the preliminary draft IPS, and in particular, to the subcommittee members, Chairman Larkin, Peter Thor, Carol Thomas and George Mason for all of their work and input. Treasurer Nappier indicated that the discussion today would serve as the official statutory review and approval process and that public notice was made on August 29, 2007.

Treasurer Nappier noted that the Request for Proposal ("RFP") process for the selection of legal firms was completed and that Catherine LaMarr, General Counsel, would report the results of the RFP respondents and the list of recommended firms.

Treasurer Nappier said that beginning this month, the quarterly report presentations for the Combined Investment Funds ("CIF"), Private Investment Fund ("PIF") and Real Estate Fund ("REF") would be given by the PFM Principal Investment Officers rather than the consultants, which was the past practice. She explained that the OTT had been building its in-house professional investment capacity over the past few years and she believed it appropriate to let PFM professionals demonstrate their knowledge and expertise by leading the presentations on the portfolios they supervise on a day-by-day basis. Treasurer Nappier noted that the information from the consultants would still be made available and the consultants would attend the quarterly meetings to answer questions as needed.

CRPTF Final Performance for July 2007

Lee Ann Palladino, Acting Chief Investment Officer, reported on the July performance and gave a preliminary update on August's performance. She said that in general, for the last six weeks the markets have experienced significant change, specifically in the U.S. equity market and fixed income markets, noting that these changes have occurred because of the potential losses looming in the U.S. sub prime mortgage market. Ms. Palladino reported that the overall performance for the month ending July 31, 2007 reflected the downturn in all markets but because of the Fund's conservative structure, it had avoided the full impact of losses versus its benchmark. She said that the portfolio fell 1.37% versus a benchmark decline of 1.69%, an outperformance of 32 basis points with the largest contributor to the loss of value being the Mutual Equity Fund ("MEF"), which underperformed its benchmark by 37 basis points. Ms. Palladino reported that the International Stock Fund ("ISF") performed slightly better than its domestic counterpart, with a loss of -.33% in July, but that preliminary numbers for August show that the sell off internationally was more material during August and the CRPTF could expect to see losses in this segment of the portfolio when August results were reviewed. She noted that the MFIF posted mixed results for July and anticipated results that were more positive for August posting a gain of .44% versus a loss of -.04% for its index.

Ms. Palladino pointed out that the double asterisk at the bottom of the performance report explained that the 1.4% of cash represented the portion of CRA that is not included in other funds. At subsequent meetings, cash will be more fully disclosed in the line item. Treasurer Nappier elaborated that the CRPTF held large sums of unfunded commitments in both the PIF and REF and it could take a few years to drawn down those funds. She said that the management of the cash was a concern because the CRPTF had been a very active investor in PIF and REF, as the IAC knows, by the large number of manager presentations over the past few months. Treasurer Nappier explained that a Liquidity Fund would help the CRPTF to better manage that cash that is earmarked for eventual investment.

Chairman Larkin presented a suggestion to the IAC with regard to presentations by existing managers seeking an additional investment from the CRPTF for a separate fund. He asked the IAC members to think about whether or not they could forego a presentation by an existing manager if that manager, with virtually the same strategy and management team, was offering another fund for investment. Chairman Larkin further asked if the IAC could depend upon the PFM principal investment officer and outside consultants to make the presentation in that case. He asked the IAC members to think about it for discussion later.

Presentation by AIG Altaris Health Partners II, L.P.

Jason Price, Principal Investment Officer, provided opening remarks and introduced AIG II, a private investment opportunity for which the CRPTF is considering a commitment of up to 10.0% of the fund size for its latest \$400 million healthcare services buyout fund. He noted that ACP is an existing manager within the PIF and that the commitment is performing very well with investments of \$26.9 million of the CRPTF's commitment, realizing \$9.1 million and an unrealized portfolio value of \$22.7 million. Mr. Price said that this investment activity has generated a net ROI of 1.2 times and IRR of 24.9%. He said that the new commitment was in compliance with the IPS and would bring the CRPTF's exposure to the healthcare sector to approximately 10% and exposure to the buyout strategy to approximately 43%.

Mr. Price and Bradley Atkins of Franklin Park responded to concerns of the IAC members regarding key man clause; termination provisions; depth issue; outsourcing of healthcare services; and investment amount to the fund by the General Partner.

Presentation by Altaris Capital Partners, LLC

ACP made a presentation to the IAC on AIG II. ACP was represented by Michael Kluger and Daniel Tully, both principals of the firm. Mr. Kluger provided an overview of ACP, information on healthcare opportunity and the firm's commitment to diversity and corporate citizenship. Mr. Tully provided case studies of two investments, the firm's track record and information on the progress of AIG I.

Mr. Kluger and Mr. Tully responded to questions from the IAC members regarding outsourcing in the areas of pharmaceutical, medical devices and IT services; the firm's depth of strength; the expected return on the firm's investment in Alterna; and the financial commitment to the fund by the General Partners.

Roll Call of Reactions for AIG Altaris Health Partners II, L.P.

Mr. Thor, Ms. Thomas, Sharon Palmer, Mr. Roth, Thomas Barnes, Mr. Freeman, Duke Himmelreich, William Murray, Thomas Fiore and Chairman Larkin supported the commitment. Chairman Larkin noted one reservation and that was the question of renegotiation of the termination process clause.

Chairman Larkin asked for a motion to waive the 45-day comment period for AIG Altaris Health Partners II, L.P. **A motion was made by Ms. Palmer, seconded by Mr. Murray, to waive the 45-day comment period for AIG Altaris Health Partners II, L.P. The motion was passed unanimously.**

Chairman Larkin continued the discussion regarding the proposal to discontinue existing manager follow-on presentations before the IAC. Treasurer Nappier explained that the purpose of reducing

the number of presentations is to create a more efficient process for the conduct of IAC meetings and timely consideration of investment policy matters and related investment opportunities. She said that in-house meetings with both existing and new managers would not be affected by this change, and that IAC members would be invited to participate in these meetings rather than having the existing managers present at a regular monthly meeting of the IAC. Treasurer Nappier further explained that due diligence reports on follow-on investments would still be subject to IAC consideration at its regular meeting, at which time IAC members could elect to have any existing manager report to them at its next meeting, if there are any issues. A discussion ensued with expression of qualified acceptance and reservation about the change in practice. Chairman Larkin suggested that IAC members give further consideration to the proposal and make a decision at the next IAC meeting.

Consideration of Semi-Finalists for Mutual Fixed Income Fund high yield

Ms. Palladino provided opening remarks regarding the MFIF high yield search noting that the process was intended to expand the CRPTF's list of approved managers for the high yield mandate, providing more flexibility in managing that segment of the portfolio. She mentioned the attributes of each of the managers, indicating that PIMCO is a highly regarded fixed income manager with over \$21 billion in the high yield space. Ms. Palladino noted that PIMCO's strategy is the higher credit quality; utilization of other closely related segments of the market including emerging market debt, corporate bonds and investment grade; and to add value through capital appreciation targeting 100 basis points of excess return, most of it to come from capital appreciation. She said that Shenkman, also a highly regarded money manager, had specialized solely in high yield since Mark Shenkman founded the company in 1985 and noted that the firm's strategy is to add value through interest income and to avoid defaults rather than targeting return from capital appreciation; to reach to high yield credits with an average rating of B on the portfolio; and focus solely on the high yield market. Ms. Palladino said that the final candidate, Stone Harbor, presented at the July IAC meeting and ultimately was awarded \$150 million for the emerging market debt mandate. This firm specializes solely in emerging market debt and high yield and its strategy is to utilize a top down approach for industry and sector allocation, seeking opportunities that represent the best risk/return profile for the funds; focus on out of favor industries concentrated in the higher credit quality segments of the industry; and to invest in investment grade corporates that trade like high yield securities.

Presentation by Pacific Investment Management Company

PIMCO made a presentation to the IAC on its high yield product. PIMCO was represented by Melody Rollins, Senior Vice President and Client Servicing Account Manager; David Andrews, Executive Vice President; and Rudy Pimentel, Vice President and Product Manager for high yield. Ms. Rollins reported on the firm's outperformance record in high yield. Mr. Pimentel provided information on the firm's high yield background, the breadth and depth of the firm's high yield team as well as the firm's investment philosophy, strategy, and structure of the high yield portfolio. Mr. Andrews provided information on the firm's high yield construction and credit research process.

Mr. Pimentel responded to a question from the IAC regarding PIMCO's July 2007 performance.

Presentation by Shenkman Capital Management, Inc.

Shenkman made a presentation to the IAC on its high yield product. Shenkman was represented by Mr. Shenkman, President and Chief Investment Officer and Kim Hekking, Senior Vice President of Client Services. Mr. Shenkman provided an overview of the firm and information on the firm's assets under management by client type, investment products, senior and investment management teams,

investment goals, high yield management styles and philosophy, research and investment process. He also discussed the current high yield market conditions and Shenkman's performance and portfolio characteristics.

Mr. Shenkman responded to questions from the IAC regarding key man risk; the proposed portfolio investments for the CRPTF; the percentage of instances that Mr. Shenkman is outvoted during the firm's secret balloting when determining investments and the percentage of time that the outvoting is correct; and where and when has Shenkman's investment model failed.

Presentation by Stone Harbor Investment Partners

Stone Harbor made a presentation to the IAC regarding its high yield product. Stone Harbor was represented by Jonathan Fischer, Senior Relationship Manager; Peter Wilby, Chief Investment Officer; and Beth Semmel, Senior Portfolio Manager. Mr. Wilby reported on the firm's high yield team, investment philosophy and performance. Ms. Semmel discussed the firm's high yield investment process including credit analysis, security selection and risk management. Mr. Fischer made closing remarks noting the lack of team turnover, track record and the firm's commitment to the high yield market.

Mr. Wilby and Ms. Semmel answered questions from the IAC regarding former weightings in out of favor businesses; the size of the high yield market; the firm's performance for July 2007; and default rate over the past ten years.

Roll Call of Reactions for Three (3) Semi-Finalists for Mutual Fixed Income Fund High Yield

Mr. Fiore said that he would be fine with all three firms and would rank them in the order of PIMCO, Shenkman and Stone Harbor.

Mr. Murray said that he was satisfied with all three firms and ranked them the same as Mr. Fiore.

Mr. Himmelreich said that he would rank them differently because although PIMCO is the best in the business, he was concerned about the firm's ability to outperform the indices. He said that he would not have a problem with any or all of the three.

Mr. Freeman said that he favored all three, each with its own niche. He said Shenkman was very conservative and would deliver; thought that PIMCO would be a little more reactive and that Mr. Himmelreich made an excellent point; and that Stone Harbor was in between.

Mr. Barnes said that he liked all three, indicating a preference for Shenkman, PIMCO and Stone Harbor, in that order.

Mr. Roth disclosed that both PIMCO and Shenkman manage money for his company. He said that Shenkman would be his first choice because he preferred a very conservative approach to high yield. He also said that any of the three could manage the money and that the least favorable would be PIMCO because the firm was too large. Mr. Roth said that Stone Harbor reminded him a lot of Shenkman in terms of the firm's performance and philosophy.

Ms. Palmer said that all three would be fine in the order of Shenkman, PIMCO and Stone Harbor. She said that she found the Shenkman presentation refreshing, forthright and straightforward.

Ms. Thomas said that she felt if anything happened to Mr. Shenkman, there would be a real problem with performance for that firm. She said that nonetheless, she would have a hard time rating the three firms, all were competent and she would be comfortable with any or all of them.

Mr. Thor said that he agreed that all three firms were good and he would rank Shenkman first for the reasons that had been enumerated and agreed if Shenkman left the firm, it would have an impact on the firm. He said that he found Rogerscasey's information very helpful in making the determination. He also said that based on the ten-year risk returns information, he ranked Stone Harbor second and PIMCO last because the firm was too close to the edge.

Chairman Larkin said that he rated them in order of Shenkman, Stone Harbor and PIMCO. He said that he thought the comments and critical mass of PIMCO were well taken, but that all three firms would be fine.

Chairman Larkin noted that the result of the roll call was that all members present were in favor of all three, have rated them slightly deferent, but have no objection to Treasurer Nappier contracting with any one, or all three of the firms.

Chairman Larkin asked for a motion to waive the 45-day comment period for the three Mutual Fixed Income Fund high yield Managers. **A motion was made by Mr. Thor, seconded by Mr. Himmelreich, to waive the 45-day comment period for the three Mutual Fixed Income Fund high yield Managers. The motion was passed unanimously.**

Consideration of Treasurer's Proposed Revisions to the Investment Policy Statement

Chairman Larkin thanked the sub-committee, Mr. Thor, Ms. Thomas and Mr. Mason, for meeting and he also complimented all of those individuals who worked on the document.

Howard Rifkin, Deputy Treasurer, made introductory remarks on the package of information regarding the IPS provided to the IAC for today's meeting. He reviewed the process noting that the document before the IAC today was the formal draft amendment and that this was the opportunity for the IAC to offer any additional comments to Treasurer Nappier for her consideration. Deputy Treasurer Rifkin said that in October 2007, based on any additional feedback, Treasurer Nappier would formally adopt an amended IPS and present it to the IAC for approval.

Deputy Treasurer Rifkin highlighted some of the issues that were addressed in the proposed amended IPS including the implementation of the new asset allocation plan; a number of additional asset classes, which includes the Alternative Investment Fund ("AIF") for which placeholder language was inserted; and the recognition of individual characteristics of the major pension funds under management of the CRPTF moving toward a disaggregated approach to managing each fund separately. He also discussed that some of the more detailed information with respect to sub-asset allocation, as well as detailed investment guidelines within each of the asset classes, was relocated from the core IPS to appendices and that along with that change, a process was placed in the amended IPS for changes to the appendix extending to the IAC the requirement that any changes to the appendix be approved by the IAC.

The subsequent discussion included comments, concerns and questions regarding the vigorous approval process that was maintained for the document; the appendix approval process; more flexibility for Treasurer Nappier when negotiating guidelines with individual MEF managers; AIF placeholder; and the Watch List process. During the sub committee meeting, Ms. Thomas requested

that a sentence be added stating that performance would be assessed over a three to five year period. Deputy Treasurer Rifkin suggested that rather than adding language to the IPS that the discussion should take place at the IAC meeting and become part of the IAC minutes. A very lengthy debate ensued relative to the monitoring of manager performance, reporting to the IAC and the point at and the circumstances under which a money manager would be placed on the Watch List. The debate ended with Treasurer Nappier stating that language would be included in the IPS that would indicate what would trigger placement of a money manager on the Watch List.

Consideration of Law Firm Recommendations

Catherine LaMarr, General Counsel, said that Treasurer Nappier's recommendation before the IAC was for contracting with a variety of law firms, allowing the OTT to select an appropriate law firm when outside counsel was required.

Chairman Larkin said that the IAC had taken the position that it did not have the expertise to select law firms. Treasurer Nappier said that she recommended that the IAC accept the pool of preferred law firm candidates that had been chosen by the selection committee, which was headed by Ms. LaMarr. **A motion was made by Mr. Himmelreich, seconded by Mr. Freeman, that the IAC accept the pool of preferred law firm candidates that had been chosen by the selection committee. The motion was passed unanimously.**

Chairman Larkin asked for a motion to waive the 45-day comment period for the pool of preferred law firm candidates that had been chosen by the selection committee. **A motion was made by Ms. Thomas, seconded by Mr. Freeman, to waive the 45-day comment period for the pool of preferred law firm candidates that had been chosen by the selection committee. The motion was passed unanimously.**

Quarterly Fund Reviews

The Quarterly Fund Reviews were deferred to the October 10, 2007 IAC Meeting.

Short Term Investment Fund Review as of June 30, 2007

Larry Wilson, Assistant Treasurer-Cash Management, reported that the Short Term Investment Fund ("STIF") returned 5.54% in the last fiscal year, outperforming its benchmark by 40 basis points. He said that STIF maintained that level of performance during July 2007, continuing to outperform the benchmark. In August, however, the yield did drop to 5.22% and is currently at 5.13%. He also said that the drop in yield was due to some cautious steps taken by STIF to reduce exposure to asset-backed commercial paper, greater exposure to U.S. Treasury and agency securities and more overnight and same day liquidity. Mr. Wilson said that 90% of the portfolio is rated A1+ by one of the highest money fund rating categories of Standard & Poors.

Other Business

Review of the IAC budget for the quarter ending June 30, 2007

Ms. Palladino said that she had no comments on the presented budget.

Pension Funds Management Division operating results as of June 30, 2007

Ms. Palladino said that there was nothing material to report on the operating results.

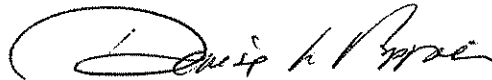
Discussion of preliminary agenda for October 10, 2007 IAC meeting

Ms. Palladino indicated that there would be presentations by the Alternative Investment Consultant semi-finalists, quarterly reports, watch list, securities lending and the IPS. Chairman Larkin advised that he would be making changes to the composition of the IAC sub-committees and reporting on those changes at the October meeting.

Chairman Larkin said that on behalf of the IAC, Ms. Balich had done an outstanding job and asked for a motion to thank Ms. Balich for her extraordinary performance and friendship. **A motion was made by Mr. Freeman, seconded by Ms. Palmer, to thank Ms. Balich for her extraordinary performance and friendship. The motion was passed unanimously.**

There being no further business, the meeting was adjourned at 1:15 P.M.
An audio tape of this meeting was recorded.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Denise L. Napier", written in a cursive style.

**DENISE L. NAPPIER
SECRETARY**